

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

\* \* \* \*

In the Matter of:

THE APPLICATION OF KENTUCKY WATER	)	
SERVICE COMPANY, INC., FOR A SURCHARGE)	)	CASE NO.
TO OFFSET A SURCHARGE GRANTED FERN	)	8165
LAKE COMPANY, ITS SUPPLIER.	)	

O R D E R

On December 16, 1980, in Case No. 7982 Kentucky Water Service Company, Inc., ("Applicant") moved the Commission for approval of a surcharge rate clause to pass on to its customers in Middlesboro and environs any increases in the charges now being paid to Fern Lake Company ("Fern Lake"). In the alternative, the Applicant moved that the surcharge matter be assigned a case number and processed as a companion case to Case No. 7982.

The Attorney General's Division of Consumer Intervention ("Attorney General") objected to the motion on the ground that to sustain the motion would be improper procedurally as it would be the equivalent of approving a rate increase without proper application or full and complete public notice. In its interim Order issued February 27, 1981, in Case No. 7982 the Commission concurred with the Attorney General's objection. The Commission found, however, that the method proposed in the alternative motion would be proper procedurally and would provide the Applicant the best opportunity to recover through its rate structures any surcharges imposed upon it by Fern Lake. Accordingly, by Order dated March 5, 1981, the above-styled case was instituted. In addition, the Order of March 5, 1981, set a hearing in this matter for April 2, 1981, and ordered

the Applicant to give notice of such hearing in the manner prescribed by Kentucky Revised Statutes and Commission regulations. The hearing was held as scheduled at which time there appeared no party of interest other than the Applicant.

After reviewing the evidence of record and being advised, the Commission is of the opinion and finds that:

(1) A Purchased Water Adjustment Clause is the fair, just and reasonable method to be used to provide for the adjustment of Applicant's rates in Middlesboro and environs when the wholesale cost of water is increased or decreased as it will allow the Applicant to reflect on a timely basis its increased or decreased costs. Further, it is in the best interest of the public as it will help to ensure the financial stability of the Applicant and therefore its ability to provide safe, reliable water service to the public.

(2) The Applicant does not have on file with the Commission in its tariff a Purchased Water Adjustment Clause.

(3) For the purpose of the future application of the Purchased Water Adjustment Clause of the Applicant, the base rate for purchased water should be:

<u>Supplier</u>	<u>Rate</u>
Fern Lake Company Basic Rate	
First 41,667,000 Gallons	\$ 7,100 per month
Each Additional 1,000 Gallons	18¢ per 1,000 gallons per month
Fern Lake Company Surcharge*	1,793.40 per month

\* Approved in Commission Order No. 7292 dated January 30, 1979.

IT IS THEREFORE ORDERED that the surcharge rate clause proposed by the Applicant is hereby denied.

IT IS FURTHER ORDERED that the Purchased Water Adjustment Clause set out in Appendix A attached hereto is fair, just and reasonable and the same is hereby approved for service rendered in Middlesboro and environs on and after July 23, 1981.

IT IS FURTHER ORDERED that for the future application of the Purchased Water Adjustment Clause approved herein, the base rate for purchased water shall be:

<u>Supplier</u>	<u>Rate</u>
Fern Lake Company Basic Rate	
First 41,667,000 gallons	\$ 7,100 per month
Each additional 1,000 gallons	18¢ per 1,000 gallons per month
Fern Lake Company Surcharge*	1,793.40 per month

\* Approved in Commission Order No. 7292 dated January 30, 1979.

IT IS FURTHER ORDERED that the Applicant shall file with this Commission within 30 days from the date of this Order its revised tariff sheets setting out the Purchased Water Adjustment Clause approved herein.

Done at Frankfort, Kentucky, this 23rd day of July, 1981.

PUBLIC SERVICE COMMISSION

Neel M. Voth  
Chairman

Did not participate  
Vice Chairman  
John H. Langston  
Commissioner

ATTEST:

\_\_\_\_\_  
Secretary

## APPENDIX A

### APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION OF KENTUCKY IN CASE NO. 8165 DATED JULY 23, 1981.

The following rates and charges are prescribed for the customers of Kentucky Water Service Company in Middlesboro and environs. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this Order.

#### Purchased Water Adjustment Applicable To Middlesboro and Environs Rate Schedule

The retail rates now authorized and operable are based upon the wholesale cost of water to the Applicant pursuant to valid contracts or wholesale tariffs on file with the Commission. For purposes of this purchased water adjustment clause, these wholesale rates shall be considered as the base rate for purchased water.

Application for Change in Base Rate. In the event there is a change in the base rates, the Applicant shall file with the Commission the following information:

- (1) A copy of the wholesale supplier's tariff effecting a change in the base rate and a statement from the wholesale supplier evidencing the effective date of the new rates;
- (2) A detailed statement of water purchased under the base rate for previous 12 months showing billing under the base rate and the applicable proposed rate;
- (3) A detailed statement of water sold for the same 12 months period;

(4) A balance sheet and statement of operating expenses and revenues corresponding to the same 12 months period, said period ending not more than 90 days prior to the date of this utility's application for an increase in the base rate;

(5) Evidence that the Applicant has notified its customers of the proposed change, in the event of an increase only;

(6) Revised tariff sheets reflecting the rates the Applicant proposes to charge; and

(7) Such other information as the Commission may request for a proper determination of the purchased water adjustment.

Upon receipt of all the necessary information, the Commission will review the effect of the changed rate upon the Applicant's operations and if an increase is proposed, determine whether all or a part of the increase can be absorbed by the Applicant. The Applicant shall not implement its proposed revised rates until the Commission issues an Order authorizing the Applicant to adjust its rates. If an adjustment is authorized, the supplier's changed rate shall become the supplier's base rate for use in future applications.

The maximum amount of the adjustment so ordered shall not produce revenue adjustments greater than the difference between the purchased water billed at the base rate and the purchased water billed at the authorized revised rate.

The notice required by (5) may be accomplished by a bill insert.

Calculation of the Purchased Water Adjustment. If a change is made in a base rate charged to the Applicant by its supplier(s),

the unit charges of the wholesale tariff shall be increased or decreased by a purchased water adjustment calculated as follows:

(1) Water purchases shall be computed at the supplier's base rate and the supplier's new rate using a period of 12 calendar months ending within three months preceeding the month of the effective date of the supplier's rate change. The difference between these amounts shows the total change in the Applicant's purchased water costs.

(2) The total change in purchased water costs shall be divided by the actual number of cubic feet or gallons sold, yielding the purchased water adjustment expressed in cents per cubic feet or gallons, unless the Applicant's water purchases exceed 115% of water sales during the twelve-month period.

(3) In instances where water purchases exceed 115% of water sales, the actual water sales shall be divided by 85%, yielding the maximum allowable water loss. The allowable water loss shall then be added to the actual water sales and that total shall then be multiplied by the change in cost per cubic foot or gallon, yielding the total allowable change. The total allowable change shall then be divided by the actual number of cubic feet or gallons sold, yielding the purchased water adjustment expressed in cents per cubic feet or gallons.

Procedure for Distribution of Refunds from Suppliers. In the event the Applicant receives a refund from its supplier for amounts previously paid, the Applicant shall immediately apply to the Commission for authority to make adjustments on the amounts charged customers bills under this regulation as follows:

(1) The total refund received by the Applicant shall be divided by the number of cubic feet or gallons of water the water utility estimates it will sell to its customers during the four month period beginning with the first day of the month following receipt of the refund, yielding a refund factor.

(2) Effective with meter readings taken on and after the first day of the second month following receipt of the refund, the Applicant will reduce by the refund factor any purchased water adjustment that would otherwise be applicable during the period. The period of reduced purchased water adjustment shall be adjusted, if necessary, in order to most nearly approximate the total amount to be refunded.

(3) In the event Applicant receives a large or unusual refund, the Applicant may apply to the Commission for a deviation from the procedure for distribution of refunds specified herein.

The base rate for purchased water for the future application of its purchased water adjustment clause is:

<u>Supplier</u>	<u>Rate</u>
Fern Lake Company Basic Rate	
First 41,667,000 gallons	\$ 7,100 per month
Each additional 1,000 gallons	18¢ per 1,000 gallons per month
Fern Lake Company Surcharge*	1,793.40 per month

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